

National Hees Industries
LIMITED

TORONTO

ONTARIO

Annual Report

FOR THE YEAR ENDED JUNE 30, 1968

National Hees Industries Limited

directors:

A. T. HOLLAND	-	-	-	-	-	-	-	-	Toronto
R. D. WATT	-	-	-	-	-	-	-	-	Toronto
J. T. EYTON	-	-	-	-	-	-	-	-	Toronto
B. H. BRECKENRIDGE	-	-	-	-	-	-	-	-	Georgetown
N. W. BAKER	-	-	-	-	-	-	-	-	Montreal
P. J. LOWENSTEIN	-	-	-	-	-	-	-	-	Montreal
N. E. GOODMAN	-	-	-	-	-	-	-	-	Montreal

officers:

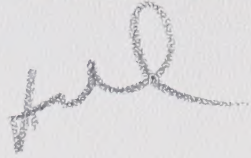
N. W. BAKER	-	-	-	-	<i>Chairman of the Board</i>			
A. T. HOLLAND	-	-	-	-	-	-	-	<i>President</i>
R. D. WATT	-	-	<i>Vice-President & General Manager</i>					
J. T. EYTON	-	-	-	-	-	-	-	<i>Secretary</i>
P. J. LOWENSTEIN	-	-	-	-	-	-	-	<i>Treasurer</i>
P. F. BOYLEN	-	-	-	-	-	<i>Assistant Secretary & Assistant Treasurer</i>		

**transfer
agents:**

For Common Shares
 GUARANTY TRUST COMPANY OF CANADA
 366 Bay Street, Toronto 1

For First Preferred Shares 1963 Series
 CANADA PERMANENT TRUST COMPANY
 320 Bay Street, Toronto 1

National Hees Industries Limited



TO THE SHAREHOLDERS OF
NATIONAL HEES INDUSTRIES LIMITED:

In November, 1967 your Company entered the precision castings business through the acquisition of Designed Precision Castings Limited. This purchase was financed by heavy borrowing thereby committing the Company to large interest and principal payment obligations. Shortly thereafter, Designed Precision Castings Limited suffered a significant decrease in sales brought about by a general decrease in the activity of a number of its major customers. This combination of a large increase in fixed interest charges and a decrease in volume of business resulted in the Company operating at a break even volume or less for several months during the last fiscal year.

In recent weeks there has been evidence that this trend is reversing. This is, no doubt, due to the expansion of your sales organization particularly in the United States, during recent months and the more efficient facilities offered by your Company with the recent integration of your machining and castings divisions. In addition, the large number of aircraft entered into production in both the United States and Canada is encouraging for the future of your Company.

Subsequent to June 30, 1968, the controlling interest in your Company was sold by The Great West Saddlery Company Limited to Edper Investments Limited of Montreal. Your directors expect to give immediate attention to a refinancing of the Company to enable short term obligations to be met and to place the Company in a sounder financial position.

On Behalf of the Board,

A. T. HOLLAND,

President.

NATIONAL HEES IN

(Incorporated under the

And Its

Consolidated Balance

(with 1967 figures)

ASSETS		1968	1967
CURRENT ASSETS:			
Cash		\$ 6,637	\$ 2,380
Marketable securities — at market value		18,434	—
Accounts receivable		126,797	56,626
Inventories (Note 2)		86,578	26,101
Income taxes recoverable		6,400	5,352
Prepaid expenses		6,910	4,974
Due from parent company		26,130	41,468
Due from affiliated company		—	6,501
Total current assets		277,886	143,402
PROPERTY, PLANT AND EQUIPMENT (Note 3)		792,399	259,619
Less accumulated depreciation		61,248	14,019
Net property, plant and equipment		731,151	245,600
OTHER ASSETS — at cost:			
Re-organization expenses		40,011	40,011
Trademarks		4,714	4,714
Total other assets		44,725	44,725
EXCESS OF PURCHASE PRICE OF SUBSIDIARY COMPANY OVER THE BOOK VALUE OF NET ASSETS ACQUIRED (Note 3)		424,007	—
TOTAL		<u>\$1,477,769</u>	<u>\$ 433,727</u>

Approved by the Board:

P. J. LOWENSTEIN, Director.

A. T. HOLLAND, Director.

AUDITOR

To the Shareholders of
NATIONAL HEES INDUSTRIES LIMITED:

We have examined the consolidated balance sheet of NATIONAL HEES INDUSTRIES LIMITED and its subsidiary companies as at June 30, 1968 and the consolidated statements of income and deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

TORONTO, ONTARIO,
August 29, 1968.

INDUSTRIES LIMITED

(Canada Corporations Act)

Subsidiary Companies

Statement as at June 30, 1968

(for comparison)

LIABILITIES AND SHAREHOLDERS' EQUITY		
	1968	1967
CURRENT LIABILITIES:		
Bank indebtedness (secured by a general assignment of book debts)	\$ 25,000	\$ 5,000
Accounts payable and accrued charges	125,681	19,297
Taxes	22,878	3,610
12% loan payable	7,500	—
5% loan payable to shareholder	31,249	—
12% debenture payable	—	35,000
Long-term debt due within one year	363,703	24,100
Total current liabilities	576,011	87,007
MINORITY INTEREST (Note 4)	22,500	—
LONG-TERM DEBT:		
Bank loan — 8%, due November 1969, payable \$200,000 annually (Note 6)	400,000	—
Notes payable — 6%, due November 1972, payable \$50,000 annually (Note 7)	250,000	—
First mortgage — 7½%, due May 1971, payable \$5,000 quarterly (Note 3)	60,000	80,000
Capital assistance loan — interest free, due May 1973, payable \$9,185 annually	45,923	—
Equipment loans — due at various dates up to November 1972, payable \$782 monthly, principal and interest	17,990	12,874
Loan from affiliated company — 15%, due May 1970, payable \$400 monthly	9,500	—
Notes payable — interest-free, due August 1968	71,170	71,198
	854,583	164,072
Less portion due within one year	363,703	24,100
Total long-term debt	490,880	139,972
SHAREHOLDERS' EQUITY:		
Capital stock (Note 5)	1,149,715	989,715
Deficit	761,337	782,967
Net shareholders' equity	388,378	206,748
TOTAL	\$1,477,769	\$ 433,727

The accompanying notes are an integral part of the financial statements.

REPORT

In our opinion these consolidated financial statements present fairly the financial position of the companies as at June 30, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

DELOITTE, PLENDER, HASKINS & SELLS,
Chartered Accountants.

National Hees Industries Limited

And Its Subsidiary Companies

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT FOR THE YEAR ENDED JUNE 30, 1968 (with 1967 figures for comparison)

	1968	1967
NET SALES	\$ 764,201	\$ 408,019
PROFIT FROM OPERATIONS BEFORE TAKING INTO ACCOUNT THE UNDERNOTED ITEMS	\$ 166,783	\$ 161,223
Remuneration of directors and senior officers	75,191	57,491
Interest on long-term debt	37,807	7,460
Depreciation	30,318	12,581
	143,316	77,532
INCOME BEFORE INCOME TAXES	23,467	83,691
RECOVERY OF INCOME TAXES	6,400	—
NET INCOME FOR THE YEAR	29,867	83,691
DEFICIT AT BEGINNING OF THE YEAR	782,967	866,658
	753,100	782,967
ADJUSTMENT OF PRIOR YEAR'S INCOME TAXES	8,237	—
DEFICIT AT END OF THE YEAR	\$ 761,337	\$ 782,967

The accompanying notes are an integral part of the financial statements.

National Hees Industries Limited

And Its Subsidiary Companies

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED JUNE 30, 1968

(with 1967 figures for comparison)

	1968	1967
FUNDS PROVIDED:	<u> </u>	<u> </u>
From operations:		
Net income for the year	\$ 29,867	\$ 83,691
Depreciation	30,318	12,581
Total funds provided from operations	<u>60,185</u>	<u>96,272</u>
Issue of common shares	60,000	—
Total funds provided	<u>120,185</u>	<u>96,272</u>
FUNDS APPLIED:		
Cost of investment in subsidiary company	<u>1,021,678</u>	<u>12,000</u>
Deduct:		
Working capital of subsidiary acquired	174,385	—
Cost financed by long-term debt	650,000	—
Cost financed by issue of common shares	100,000	—
	<u>924,385</u>	<u>—</u>
Net funds used to acquire investment in subsidiary	97,293	12,000
Net additions to plant and equipment other than upon acquisition of subsidiary company (less long-term financing of \$65,366 in 1968; \$14,879 in 1967)	4,717	19,550
Increase in current portion and repayment of long-term debt	364,458	32,512
Adjustment of prior year's income taxes	8,237	—
Total funds applied	<u>474,705</u>	<u>64,062</u>
DECREASE (INCREASE) IN WORKING CAPITAL FOR THE YEAR	354,520	(32,210)
WORKING CAPITAL AT BEGINNING OF THE YEAR	<u>56,395</u>	<u>24,185</u>
WORKING CAPITAL DEFICIENCY (WORKING CAPITAL) AT END OF THE YEAR	<u>\$ 298,125</u>	<u>\$ (56,395)</u>

The accompanying notes are an integral part of the financial statements.

National Hees Industries Limited

And Its Subsidiary Companies

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1968

1. PRINCIPALS OF CONSOLIDATION:

In the accompanying financial statements, the accounts of all subsidiary companies have been consolidated as at June 30, 1968 and for the year then ended, except that the operations of Designed Precision Castings Limited have been included for the nine months ended June 30, 1968 as that subsidiary was acquired effective September 30, 1967.

2. INVENTORIES:

Inventories have been valued as follows:

Raw materials — at the lower of cost or replacement cost	\$ 37,789
Work in process and finished goods — at the lower of cost or net realizable value	48,789
	<u>\$ 86,578</u>

3. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment have been valued as follows:

(a) Land and buildings:

(1) \$65,000 at market values submitted in a letter of opinion by Magnus T. Paulson Realty Limited dated May 16, 1966;

(2) \$305,000 at market values established from written opinions of real estate consultants received in September 1967;

plus subsequent additions at cost.

(b) Machinery and equipment:

\$286,076 at replacement cost based on letters of appraisal by Engineering Metallic Products Company dated September 15, 1967, June 20, 1966 and December 10, 1964, plus subsequent additions at cost less disposals.

(c) Other assets at cost.

The assets referred to in (a) and (b) above were owned by subsidiary companies when they were acquired and the excess of appraised values over net book values, amounting to \$357,086, has been applied against the excess of purchase price of subsidiary companies over the book value of net assets acquired.

Subsequent to the year end, a subsidiary incurred a loss of approximately \$12,000 on the sale of land and building with a net book value of approximately \$67,000. The first mortgage payable thereon at June 30, 1968 of \$60,000 was repaid.

National Hees Industries Limited

And Its Subsidiary Companies

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1968

4. MINORITY INTEREST:

Minority interest of \$22,500 is comprised of outstanding preferred shares of the subsidiary, Designed Precision Castings Limited. The company has agreed to redeem these shares at par on or before November 7, 1968.

5. CAPITAL STOCK:

The authorized and issued capital stock of the company at June 30, 1968 was as undernoted:

Authorized:

300,000 first preferred shares of a par value of \$10 each, issuable in series, of which 150,000 shares designated as 6% cumulative, redeemable, convertible, sinking fund, first preferred shares, 1963 series.

300,000 6%, non-cumulative, convertible, second preferred shares of a par value of \$1 each.

1,000,000 common shares without nominal or par value.

Issued and fully paid:

First preferred shares — 1963 series:

63,135.5	shares at beginning of the year	\$ 631,355
19,992	shares converted into common shares during the year	199,920
<u>43,143.5</u>	shares at end of the year	<u>431,435</u>

Second preferred shares:

<u>150,000</u>	shares at beginning and end of the year	<u>150,000</u>
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Common shares:

74,639	shares at beginning of the year	208,360
42,355.05	shares issued upon conversion of first preferred shares — 1963 series during the year	199,920
20,000	shares issued upon purchase of subsidiary company	100,000
20,000	shares issued for cash during the year on options granted	60,000
<u>156,994.05</u>	shares at end of the year	<u>568,280</u>

Total paid-up capital stock \$1,149,715

National Hees Industries Limited

And Its Subsidiary Companies

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1968

The first preferred shares — 1963 series, and second preferred shares are redeemable at a price not to exceed 103% of the amount paid up thereon plus accrued and unpaid dividends.

At June 30, 1968, the first preferred shares — 1963 series, and second preferred shares were convertible into 1.77 common shares and 1/5 common shares respectively for each of those shares held.

Cumulative dividends on the first preferred shares — 1963 series, in arrears at June 30, 1968, amounted to \$103,544. The holders of these shares are entitled to one vote per share at shareholders' meetings until the arrears have been paid.

During the year, an option was granted to the guarantor of the \$400,000 bank loan to purchase 25,000 common shares for \$3 a share. This option is exercisable at any time to November 7, 1969 or to the expiration of the guarantee, whichever is the later date. By agreement the company may not, during the period of the guarantee, declare any dividends or make any distribution to its shareholders without the consent of the guarantor.

6. INCOME TAXES:

A subsidiary has a deferred tax liability of approximately \$10,000, due to booking less depreciation in the current fiscal year than will be claimed for tax purposes, which is not reflected in the accompanying financial statements.

The other companies have tax losses of approximately \$385,000 which are generally available for carry-forward until the years 1968 to 1970.

7. CONTINGENT LIABILITIES AND PLEDGED ASSETS:

A chattel mortgage, in the amount of \$20,000, owned by the company and secured by a charge on the equipment of the subsidiary, Designed Precision Castings Limited, has been assigned to the previous shareholders of E.G.M. Machine Products Limited as collateral security for any liability that they may incur as a result of acts of the company and its subsidiary companies subsequent to the date of acquisition.

An agreement to indemnify, up to a limit of \$65,000, has been given to the previous shareholders of the subsidiary, Designed Precision Castings Limited, for any liability they may incur as a result of acts of the company and its subsidiary companies subsequent to the date of acquisition.

An 8%, \$400,000 debenture has been issued as collateral security to the guarantor of the \$400,000 bank loan. The debenture is secured by a floating charge on the assets of the company and its subsidiary, E.G.M. Machine Products Limited, and a second fixed charge on the common shares of the subsidiary, Designed Precision Castings Limited, owned by the company.

The common shares of the subsidiary, Designed Precision Castings Limited, owned by the company, are pledged as security for the 6% notes payable of \$250,000.

